ACHIEVING GLOBAL COMPETITIVENESS IN THE LEBANESE AGRO-INDUSTRIAL SECTOR

Organizers:

SRI International

Lebanese American University

Information International

Federation of Chambers of Commerce, Industry and Agriculture

Syndicate of Lebanese Food Industries

Lebanese American Chamber of Commerce

Lebanese Businessmen Association (RDCL)

BEIRUT, LEBANON

Sponsored by:

USAID/LEBANON

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Seminar Agenda

10:00 – 10:30 a.m.	*Welcome Note* **Dr. Georges Nicolas - Lebanese American University** *Opening Address* **Mr. Ghassan Jamous - Program Specialist, USAID Lebanon**
10:30 – 11:15 a.m.	*Global Drivers of Competitiveness in the Agro-Industrial Sector* **Mr. Peter Boone - Principal Economist, SRI International**
11:15 – 12:00 a.m.	*The Impact of WTO on Agro-industry in Lebanon* **Mr. Farhat Farhat - Director, USAID WTO Accession Project for Lebanon.**
12:00 – 1:00 p.m.	*Lunch*

Seminar Agenda (Continued)

1:00 – 1:30 p.m.	***Current Global Quality and Safety Issues in Agro-Industry*** **Mr. Richard Stier, Director, Technical Services, USAID funded Agricultural Led Business (ALEB) Project in Cairo, Egypt**
1:30 – 2:15 p.m.	***Current Health and Nutrition Trends and Opportunities in Agro-Industry*** **Dr. Laszlo Somogyi, Food Industry Scientist, SRI International**
2:15 – 2:45 p.m.	***Agro-Industrial Policy Issues in Lebanon*** **Mr. Atef Idriss, Chairman, Conserves Modernes Chtaura and President of the Syndicate of Lebanese Food Industries**
2:45 – 3:15 p.m.	***High Potential Agro-Industrial Business Opportunities in Lebanon*** **Mr. Peter Boone, Principal Economist, SRI International**
3:15 - 3:30 p.m.	***Coffee Break***

Seminar Agenda (Continued)

3:30 – 4:15 p.m.	***Panel Discussion on Lebanese Perspectives on the Competitiveness Prospects and Challenges in the Agro-industrial Sector in Lebanon***

Panel Speakers

Mr. Raphael	**Chairman, Agricultural Committee, Federation of Chambers of Commerce, Industry, and Agriculture**
Mr. Atef Idriss	**Chairman, Conserves Modernes Chtaura, and President of the Syndicate of Lebanese Food Industries**
Dr. Hussein Deeb	**Consultant FAO - Agriculture Research Institute/FANAR**
Mr. Arslan Sinno	**Vice President, American Lebanese Chamber of Commerce**
Mr. Fadi Saab	**Chairman, Trans Mediterranean Airways (TMA) and President, Working Group on Globalization, Lebanese Businessmen Association (RDCL)**
4:15 – 4:30 p.m.	**Closing Remarks**

Global Drivers of Competitiveness in the Agro-Industrial Sector

Mr. Peter Boone
Principal Economist
SRI International

July 12, 2000

Who is in the room?

Agribusiness Cluster Stakeholders

- Associations
- Processed food business leaders
- Fresh produce business leaders
- Agribusiness service providers
- Educators and training providers

Core Mission:

Achieving Global Competitiveness in the Lebanese Agro-Industrial Sector:

- **Create modern, competitive agribusiness systems that are economically, ecologically, and socially sustainable.**
- **Agribusiness includes all economic agents in the "cluster" including farmers, laborers, food processors, input suppliers, and retailers.**
- **The development imperative is to enable all these stakeholders to benefit from a more competitive system. There can be win-win situations where the stakeholders "*Cooperate to Compete*."**

Defining Global Competitiveness

What it is...

- Increased productivity
- Innovation

As characterized by…

- Agility
- Efficiency
- Higher margins
- Strategy
- Developed human capital

What it is not...

- Cheaper products
- Lower wages
- Trade protectionism

Defining Globalization

"World integration of financial markets, nation states, and technologies within a free market capitalism on scale never before experienced."

From Thomas L. Friedman, author: *The Lexus and the Olive Tree: Understanding Globalization*

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GLOBAL AGRIBUSINESS TRENDS

- Globalization and Trade
- Concentration and Integration
- Market Shifts
- Health and Safety
- Ecology
- Biotechnology

GLOBALIZATION AND TRADE

- Leading food processors, food ingredient suppliers, retailers and fast food service companies have become multinational organizations.

- Reduction in tariff and non-traffic barriers benefit internationally focused agribusiness companies. The WTO (GATT) agreement exemplifies the continued trade liberalization trend, reinforced by the continuing advances in transportation, telecommunication, and information technologies.

- Growth of international trade will continue to grow. New market opportunities will multiply across and within major trading blocs such as European Union, and North America.

- Simultaneously, competitive threats will intensify as import protectionism is stripped away.

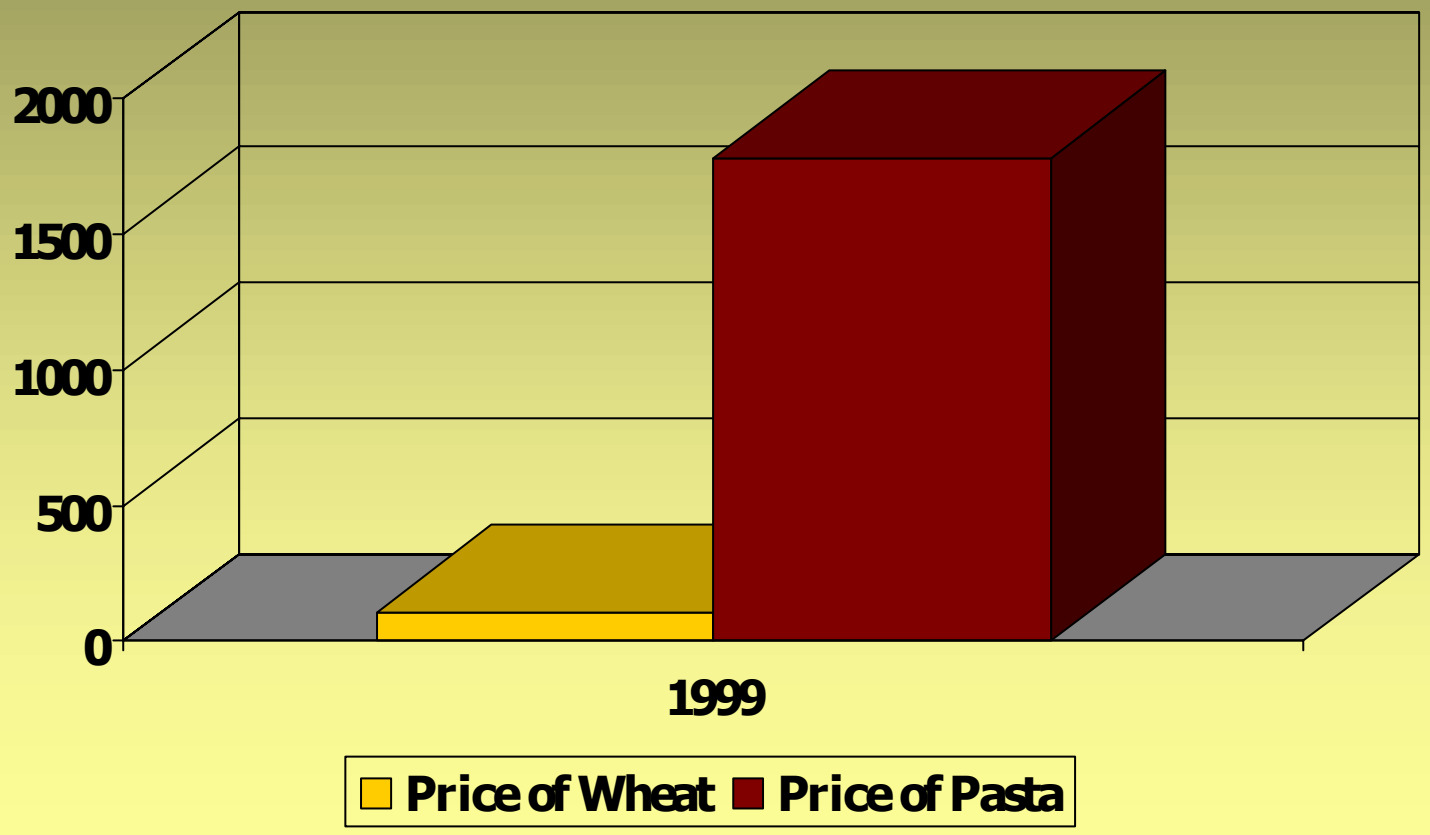
GLOBALIZATION AND TRADE

- Price conscious consumers will welcome new foreign suppliers if they are cheaper or better.
- Only the agribusiness systems that modernize will survive . At the same time, the international markets are increasingly demanding more processed and high-value foods.
- Traditional export commodities will have only modest volume growth (around 2.5%) and commodity price prospects are not very favorable.
- Over the past decade, European and US commodity exports decreased by 4 percent in volume terms, while their processed food exports increased by 80 percent.
- Developing countries that failed to make significant shifts out of commodities into higher value products have lost ground in their world market share.

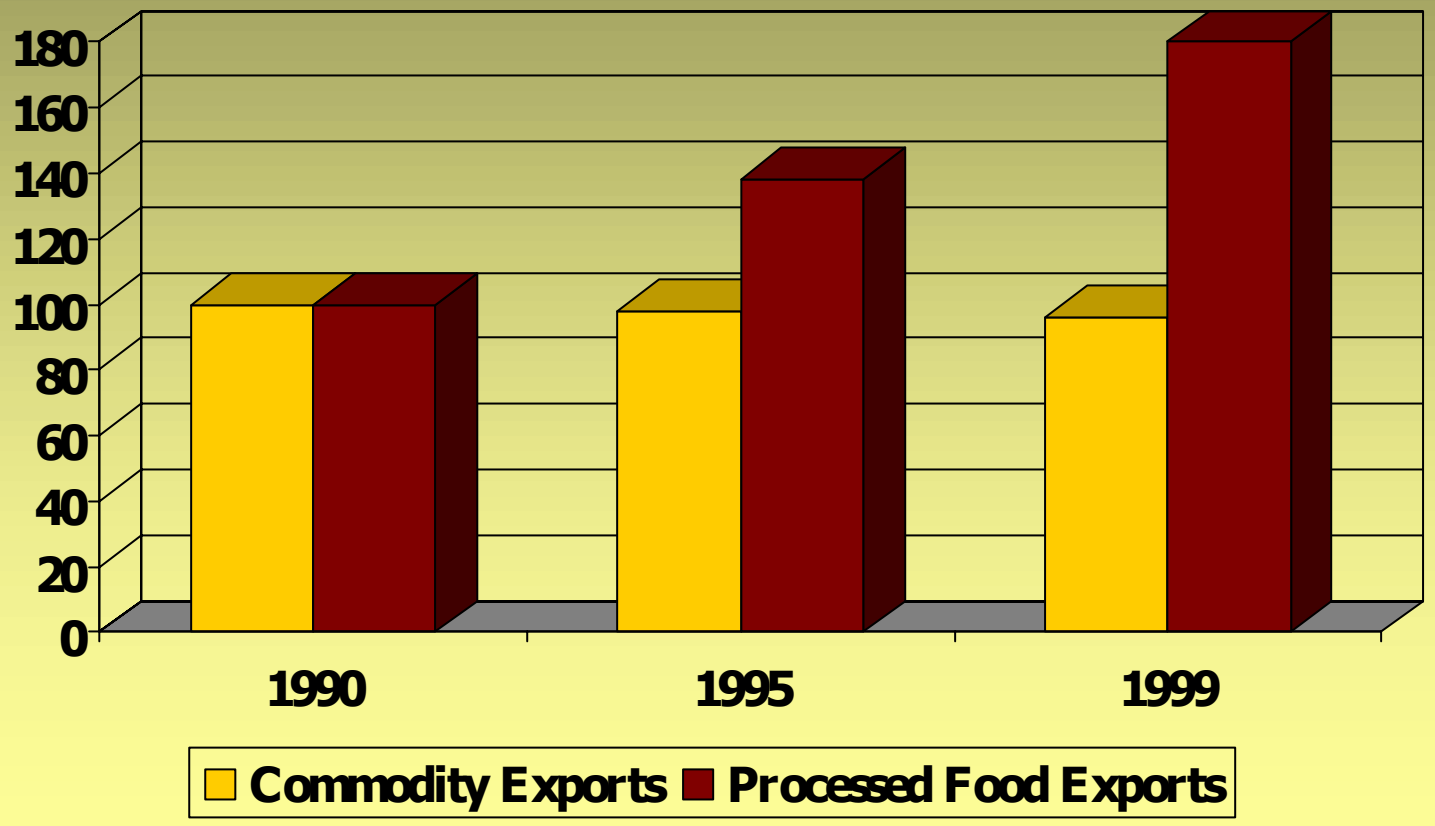
Cutting Agricultural Subsidies and Protection under Uruguay Round

	Developed countries 6 years: 1995–2000	Developing countries 10 years: 1995–2004
Tariffs		
average cut for all agricultural products	**–36%**	**–24%**
minimum cut per product	**–15%**	**–10%**
Domestic support		
total AMS cuts for sector (base period: 1986-88)	**–20%**	**–13%**
Exports		
value of subsidies	**–36%**	**–24%**
subsidized quantities (base period: 1986–90)	**–21%**	**–14%**

Commodity vs. Processed Food Export Prices



Processed Food vs. Commodity Export Price Changes



CONCENTRATION AND INTEGRATION

- Declining percentage of the population engaged in farming.
- Fewer, but more productive farmers will produce increasing amounts of food to meet the ever-growing demands of the urban and export markets.
- As the populations move further from farms demand of technologies that allow long-distance distribution of fresh produce will advance.
- Farmers are increasingly working together in associations or cooperatives to gain economies of purchasing, storage, and transportation.

CONCENTRATION AND INTEGRATION

- Processing plants, wholesalers, and retailers are becoming fewer and bigger.
- Multinational food/agribusiness corporations such as Coca-Cola, McDonalds, Nestle, and Cargill are present throughout the world and their brand recognition is rising.
- Supermarkets are becoming larger, and are entering into direct contracts with farmer groups.
- The fast-food chains are becoming a more powerful force in agribusiness systems and often create alliances with their farmer or processor suppliers.

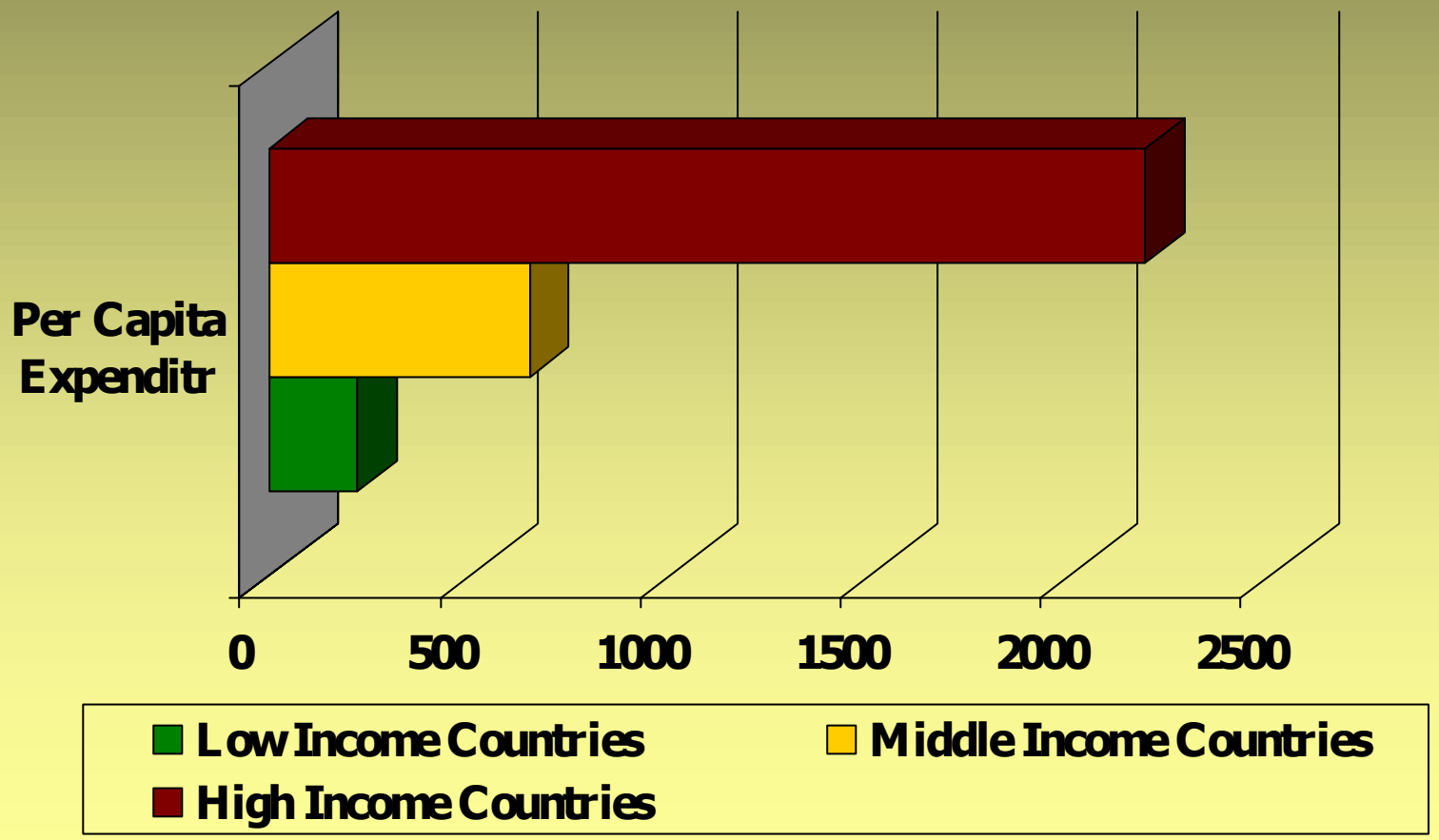
SHIFTS IN THE MARKET

- Shift from commodities toward processed food in response to changes in consumer preferences.
- Women are entering the workforce in large numbers and have less time for food preparation. As incomes rise, they are also able to pay for convenience and easy preparation.
- More meals will be consumed away from home in fast-food restaurants, and supermarket stores are offering take-out prepared foods.
- Consumers are looking for variety, new and non-traditional food. The popularity of ethnic, niche market food will continue to increase (including Middle Eastern food).

SHIFTS IN THE MARKET

- Wealthier consumers demand high quality and value food products.
- Developing country markets will manifest growing demand for food products because of population growth and growing incomes.
- Per capita consumption of processed foods by urban consumers triples as country moves from low income to middle income, and then more than triples as it achieves high income status.
- Increased importance to product differentiation and branding (French territorial naming – wine, champagne, cheese; Kiwi fruits; Colombian coffee; Dominican cigars; Florida orange juice, and Starbucks coffee).

Processed Food Consumption Rises Rapidly with Income for Urban Consumers



HEALTH AND SAFETY ISSUES

- Consumers' concern for food safety has been enhanced by recent widely publicized food poisoning incidences, placing great pressure on improvements in food plant sanitation, process control, and quality assurance.

- Food processors increasingly will be required to comply with strict quality assurance procedures such as HACCP, ISO-9002, and ISO 14000 if they want to compete in developed country markets. Representatives of the buyers often visit food plants of suppliers to assure strict sanitary procedures are followed.

- Desire for more nutritious and healthy foods is growing, particularly for low fat, low cholesterol foods and "organic" foods. Preference for less processing and food additives in food.

- Organically grown and natural food is considered superior by an increasing number of consumers and they are willing to pay premium prices for such products. Organic product markets are growing by 25 percent per year in the United States and Europe.

- Products carrying "fresh or natural" labels attract high consumer attention.

HEALTH AND SAFETY ISSUES

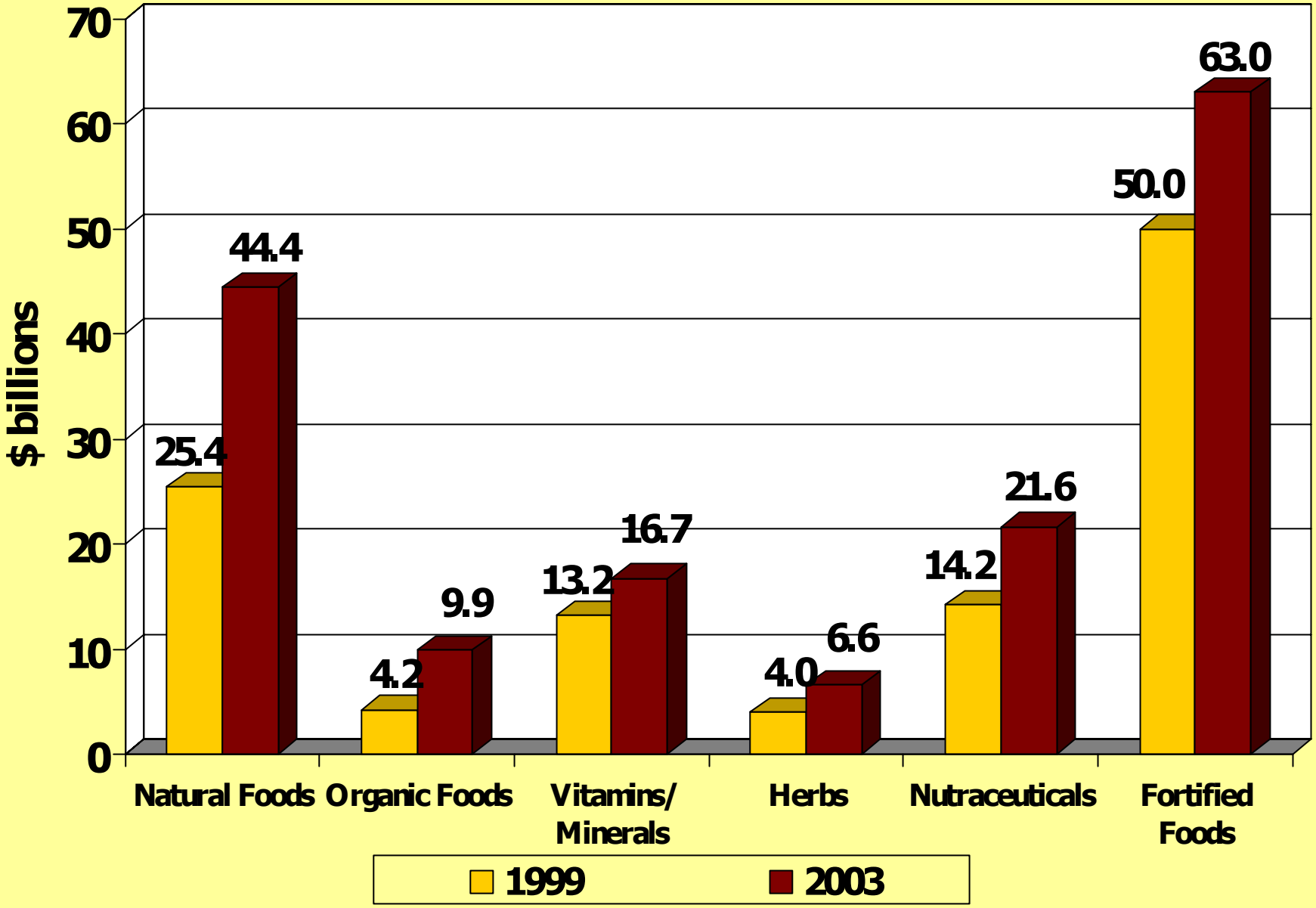
- **Consumers are increasingly reading food labels and avoid additives with chemical sounding names, synthetic colors and flavors, and chemical preservatives.**

- **New food products designed to prevent or even cure diseases are introduced in great numbers. A new product category known as *Nutraceuticals* is being introduced by food processors. Industry giants (e. g., Campbell, Heinz, Johnson & Johnson, Kellogg, Lipton, Quaker and Hunt-Wesson) are breaking new ground with nutraceuticals products that help lower cholesterol and help prevent cancer.**

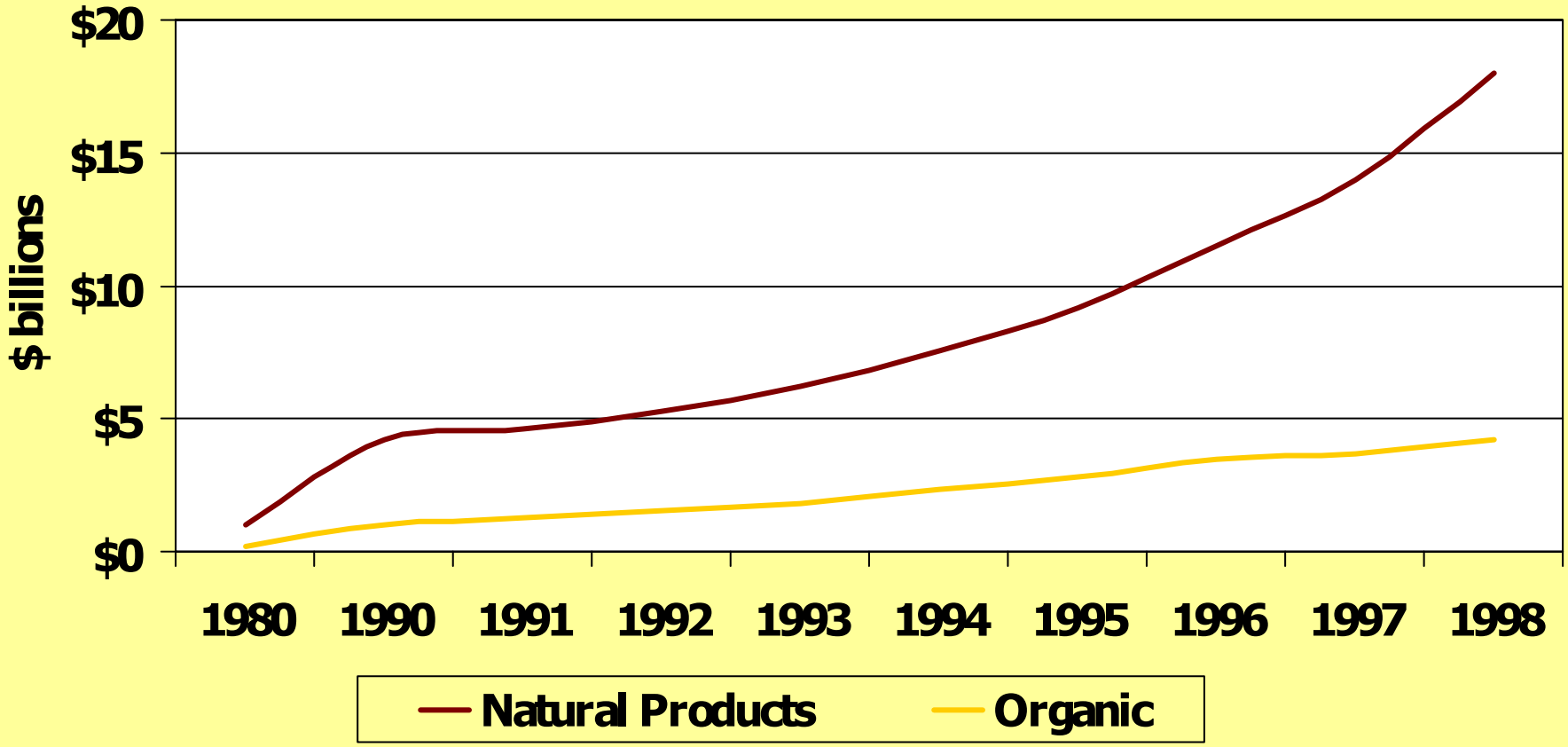
- ***Phytochemicals* from fruits, vegetables and grain will become an integral part of health strategy.**

- **Herbal preparations, antioxidants, and other newly discovered physiologically active compounds extracted from plants (e.g. isoflavones in soybean, etc.) and milk (e.g. lactoferin) are being introduced by mainstream marketers. The health conscious and affluent aging population fuels interest in these preparations.**

Projected Growth in the U.S. Healthy Food Market



Organic & Natural Food Sales In the United States



In 1998, Natural Products out-performed the market by 30%.

Organic food sales show double-digit growth (20-24% per year) and are predicted to reach $6.6 billion by the end of 2000.

ECOLOGY

- Growing environmental awareness creates opportunities for agriculture.
- While environmental control of the agribusiness system is largely dictated by government mandate, being "*environmentally friendly*" is increasingly becoming a basis for competition.
- As consumers demand ecologically correct "*green*" products, ecology is becoming a good business.
- *"Green Markets"* are developing the utilization of biodegradable packaging material instead of plastics.

BIOTECHNOLOGY

- Biotechnology advances will have profound effects on agribusiness systems. Traditional farm produce may be dramatically shifted by genetic engineering of plant varieties to improve pest or disease resistance, permit nitrogen fixation, or add vitamins or other nutritional benefits.

- Agrochemical usage may decrease, with positive cost and environmental implications.

- Productivity will increase and shelf life, taste, appearance of crops will be improved. New varieties may reduce vulnerability to harsh climate or water conditions.

- Biotechnology applications are also being utilized widely in North America in livestock/veterinary and in food processing (e.g., bio-processing and bio-catalysis). Biotechnology is also extending the purpose of plants from food production to pharmaceutical, cosmetics, polymers and other industrial chemical production.

BIOTECHNOLOGY

- Decision makers in North America and several developing countries in Asia and Latin America will most likely allow biotechnology to continue to play a prominent role in food production, as they believe that it will provide benefits to consumers and producers.
- Europeans consumers tend to be biotech-adverse and intend to avoid products containing genetically modified ingredients.
- Biotechnology issues have become media-driven and media-vulnerable issues. Consumers believe what they hear from the press, and reports of dangers in the press can have an important impact on future consumption of these food items.
- The WTO and national regulatory bodies (e.g., USFDA and the USDA) will probably require more testing and labeling of GMFs, but the potential scientific benefits of genetic engineering appear to be too strong to allow it to go away.

AgroIndustry: Global Mega-Drivers

Globalization/Trade Liberalization

- Lowering of trade barriers (GATT)
- Reduced price support in most countries

Concentration and Integration

- Concentration/integration of production
- Strategic alliances between farmers, processors, and service providers
- Powerful multinationals/retail chains

Shifts in the Market

- Rising middle classes in developing countries
- Convenience, speed of preparation
- Take-out prepared food

AgroIndustry: Global Mega-Drivers

Health and Safety

- Quality standards: HACCP, ISO 90002, ISO 14000, GMP
- Health/sanitation concerns
- Strong demand for healthy/natural foods

Ecology

- Growing environmental awareness
- Ecology is becoming a good business
- *"Green Markets"* are developing

Biotechnology

- Convergence of food and medicine in *"Life Sciences"*
- Genetically engineered "*Designer Crops*"
- European resistance to *GMFs*

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